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REPORT
No. 94-1349

AIRCRAFT COMPONENTS

SEPTEMBER 29, 1976.—Ordered to be printed

Mr. LONG, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 2177]

The Committee on Finance, to which was referred the bill (H.R. 2177) to exempt from duty certain aircraft components and materials installed in aircraft previously exported from the United States where the aircraft is returned without having been advanced in value or improved in condition while abroad, having considered the same, reports favorably thereon with an amendment, and an amendment to the title and recommends that the bill as amended do pass.

DESCRIPTION OF PROVISIONS

Section 1 of H.R. 2177 would provide that certain aircraft previously exported and composed at the time of such exportation in part of components and materials which are products of the United States and which were installed while the aircraft was within the United States, will be dutiable at the regular rate of duty appropriate to such aircraft provided for in item 694.40 of the Tariff Schedules and assessed on the full value of such aircraft less the cost of U.S. components and materials at the time of installation including the cost of such installation.

The provisions of H.R. 2177 would apply the tariff treatment to such aircraft previously exported and returned to the United States without having been advanced in value or improved in condition while abroad and which was entered for consumption before 1970 pursuant to an entry which is unliquidated as of the date of enactment of H.R. 2177.

As reported, the provisions of H.R. 2177 would require that an appropriate request for liquidation of any entry under the bill must be filed on or before the 30th day after date of enactment.

Section 2 of H.R. 2177, as amended, contains a second Committee amendment relating to the present system of classification under the Tariff Schedules of the United States (TSUS) of certain imports of fabrics and apparel composed of blends of cotton and man-made fiber. Under present law, imports of fabrics and apparel composed of blends of cotton and man-made fibers are classified according to the chief value of their components. The Committee amendment would amend the General Headnote of the TSUS to provide that such imports would be classified according to the chief weight of their components.

Section 3 of H.R. 2177, as reported, contains a Committee amendment relating to the categories of countries currently excluded from treatment as beneficiary developing countries under the Generalized System of Preferences under the Trade Act of 1974 (Public Law 93–618). The Committee amendment would provide that countries which are members of the Organization of Petroleum Exporting Countries (or any other producing-country arrangement) and which did not participate in the oil embargo or withhold supplies of vital commodity resources from international trade may be designated beneficiary developing countries eligible for preferential tariff treatment. The amendment would also provide that any country which, in the future, participates in an embargo would be automatically removed from eligibility for preferential treatment in the U.S. market.

General Statement

Section 1.—Headnote 1 of part 1 (articles exported and returned of schedule 8 of the Tariff Schedules of the United States provides that "in the absence of a specific provision to the contrary, the tariff status of an article is not affected by the fact it was previously imported into the customs territory of the United States and cleared through customs whether or not a duty was paid upon such previous importation". Subpart A of part 1 of schedule 8 subsequently sets forth a number of specific provisions (item numbers 800.00 through 802.40) under which articles previously exported may be imported free of duty if not advanced in value or improved in condition while abroad. For example, item 800.00 provides that "products of the United States when returned after having been exported, without having been advanced in value or improved in condition by an process of manufacture or other means while abroad" may enter free of duty.

H.R. 2177 as reported would provide for an exemption from duty for certain aircraft components and materials installed in aircraft previously exported from the United States where the aircraft is returned without having been advanced in value or improved in condition while abroad.

Although of possible broader implications as originally introduced in the House, the bill involves the entry of a foreign aircraft which was imported into the United States and the appropriate duties were paid. This original duty paid entry of the aircraft involved ferrying it to the United States with temporary instrumentation and controls. These temporary controls were removed and replaced by avionics systems and other equipment and furnishings of American manufacture. The aircraft was then sold to a foreign corporation and exported. Sub-

sequently, the aircraft was purchased by an American firm and reimported.

It is claimed that such reimportation involving an article previously exported from the United States and not advanced in value abroad should have been permitted duty-free entry under item 800.00 of the tariff schedules. Such duty-free entry was denied by the Bureau of Customs. The Bureau also ruled that the instrumentation of American manufacture could not be separately identified and granted duty-free treatment under item 800.00.

Public hearings were held by the Committee on Finance on August 24, 1976, on tax and tariff bills. During these hearings, no objections to the aircraft components provisions of this bill from the Administration or any other source.

Section 2. Under the headnotes to Part 3 of Schedule 3 of the Tariff Schedules of the United States, the import duty on fabrics which are a blend of cotton and man-made fibers is determined on the basis of the component of the blend which is of chief value. Thus, with a blended fabric containing 50% cotton and 50% man-made fiber, the fabric or garment will be entered with a duty reflecting the component with a greater value. In such a blend, if the cotton is more valuable, the blended fabric or garment would be entered at the applicable rate of duty on cotton. In general, the duties on man-made fabrics and garments are roughly double the duties on similar cotton fabrics and garments.

Because the price of cotton has risen dramatically in the last year and the price of man-made fibers has remained relatively steady, the value of cotton by weight now exceeds the value of man made fibers by weight. As a result of the reversal in value ratios of cotton to man-made fibers, textile articles imported into the United States have are now dutiable at the lower rates applicable to cotton.

The amendment is intended to restore the duty treatment in effect prior to the price rise in cotton.

The Committee also believes that the chief value method of classifying blends has many difficulties. Sharp fluctuations in the prices of materials may have the effect unilateral changes in the rates of duty charged. Chief value depends, for example, on the place and time of purchase, as well as prices and grades of fibers. The amendment removes much of the classification difficulty by providing for a chief weight, rather than a chief value, tariff assessment.

Enactment of the amendment does not change the rates of tariff imposed by the Tariff Schedules of the United States, but reclassifies the products subject to those duties. The Committee notes that at the time when the current duty rates were established by the Congress, the value of polyester staple in foreign countries exceeded cotton's value many times over. Consequently, polyester/cotton textiles would have been chief value of polyester if only a fraction of the blend were polyester. The Committee believes this amendment will restore the rates of duty to levels which existed prior to the unanticipated price advance of cotton.

Enactment of the proposed legislation would change tariff classification at the present time for relatively few products since most imported polyester/cotton blends are a 65/35 percentage by weight ratio polyester/cotton and these products would continue to be subject to the rate of duty applicable to man-made fiber textiles. However,

it is anticipated that in the future as much as 30 percent of imported apparel will be polyester/cotton blends in chief value of cotton because of increasing cotton/prices and relatively stable polyester prices. If this amendment is not passed, the duties on polyester/cotton blended apparel would, in effect, be cut in half. As a consequence, a large portion of the U.S. apparel industry, already seriously affected by imports could be wiped out.

Section 3. Section 3 is a Committee amendment amending section 502(b) of the Trade Act of 1974. Title V of that Act authorizes the President to extend duty-free treatment to certain eligible products imported into the United States from beneficiary developing countries for a 10-year period. The essential features of the program are as follows:

—The President is authhorized to extend duty free treatment to specified products imported from developing countries;

—The President designates beneficiary developing countries; 26 countries are expressly excluded;

—Eligible articles must be imported directly from the developing country; the value added in that country must be at least a minimum percentage (35%) of the value of the article, except in those cases where the country is a member of a free trade association in which case the local content from two or more associated countries must be 50%;

—Articles subject to import relief or national security relief actions are excluded;

—Articles imported from any one country are excluded if the imports of the article from that country exceed $25 million or 50% of total U.S. imports of that article, with certain limited exceptions;

—The system will be reviewed in a report to Congress after five years and will expire after ten years.

Present law excludes countries within the following categories from eligibility to receive generalized preferences:

a. All communist countries, except those which receive MFN treatment, which are members of the GATT and the IMF, *and* which are not dominated by international communism.

b. Any country which is a member of OPEC or has entered into any other cartel-type arrangement, and acts to withhold supplies of vital materials or to charge a monopolistic price which creates serious disequilibrium in the world economy. Countries which are members of such cartels or OPEC and which act to withhold supplies or charge unreasonable prices may qualify for preferential treatment in the U.S. market if they entered into an agreement with the United States or an agreement to which the United States is a party, which assures U.S. access to essential articles at reasonable prices.

c. Any country which has expropriated the property of a U.S. national without provision for prompt, adequate, and effective compensation or without submitting the dispute to arbitration or carrying on good-faith negtiations.

d. Any country which has not taken adequate steps to cooperate with the United States to prevent narcotics and other controlled substances from unlawfully entering the United States.

e. Countries which do not eliminate reverse preferences by January 1, 1976, or do not take steps to assure that such preferences do not have a significant adverse effect on U.S. commerce by January 1, 1976.

f. Countries which do not recognize arbitral awards to U.S. citizens issued by arbitral bodies to which the parties have submitted their dispute.

In the case of items d., e. and f., the President may make an exception for particular countries when he deems it to be in the national economic interest and reports such determination to Congress.

The Committee amendment would delete from Section 502(b)(2) of the Trade Act of 1974 all references to price increases or serious disruption of the world economy. The effect of the committee amendment is to draw a distinction between OPEC countries or countries belonging to similar arrangements which withhold supplies of vital commodity resources from international trade and certain other countries which do not participate in such actions. Countries which withheld supplies during the oil embargo in 1973 would still not be eligible for tariff preferences, whereas countries which did not participate in the embargo would become eligible to be designated by the President as of September 1, 1976.

Countries which are members of OPEC but which apparently did not embargo the United States during the oil embargo include Iran, Indonesia, Ecuador, Venezuela, and Nigeria.

The amendment also would require that a country which is a member of a cartel and in the future withholds supplies of vital materials from the world economy be removed from the list of beneficiary developing countries.

The Administration strongly supports the changes in the Generalized System of Preferences embodied in section 3 of the bill.

Costs of Carrying Out the Bill and Effect on the Revenues of the Bill

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs to be incurred in carrying out this bill and the effect on the revenues of the bill. The Committee estimates that the tariff change with respect to certain aircraft components and materials curtail a customs revenue loss on a one-time basis of not more than $24,640 in 1976. There will be some loss of revenues as a result of the amendment dealing with OPEC nations but the amount is not believed to be large and depends on Presidential action. The amendment relating to textile fibers will increase customs revenues by an undetermined amount.

Vote of Committee in Reporting the Bill

In compliance with section 133 of the Legislative Reorganization Act, as amended, the following statement is made relative to the vote of the committee on reporting the bill. This bill was ordered favorably reported by the committee without a roll call vote and without objection.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of Rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TARIFF SCHEDULES OF THE UNITED STATES

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SCHEDULE 3.—TEXTILE FIBERS AND TEXTILE PRODUCTS

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Schedule 3 headnotes:

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8. Notwithstanding any other provision of law, for the purposes of the tariff schedules an article to which this schedule applies, 90 percent or more of the total fiber content of which consists, by weight, of cotton and man-made fibers—

(a) shall be treated as if it were in chief value of cotton if 65 percent or more of the total fiber content of the article consists, by weight, of cotton (whether the article is in chief value of cotton or not), and

(b) shall be treated as if it were in chief value of man-made fiber if less than 65 percent of the total fiber content of the article consists by weight, of cotton (whether the article is in chief value of man-made fiber or not).

TRADE ACT OF 1974

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TITLE V—GENERALIZED SYSTEM OF PREFERENCES

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SEC. 502. BENEFICIARY DEVELOPING COUNTRY.—

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(b) No designation shall be made under this section with respect to any of the following:

Australia
Austria
Canada
Czechoslovakia
European Economic Community member states
Finland
Germany (East)
Hungary
Iceland
Japan
Monaco
New Zealand
Norway
Poland
Republic of South Africa
Sweden
Switzerland
Union of Soviet Socialist Republics

In addition, the President shall not designate any country a beneficiary developing country under this section—

(1) if such country is a Communist country, unless (A) the products of such country receive nondiscriminatory treatment, (B) such country is a contracting party to the General Agreement on Tariffs and Trade and a member of the International Monetary Fund, and (C) such country is not dominated or controlled by international communism;

(2) if such country is a member of the Organization of Petroleum Exporting Countries, or a party to any other arrangement of foreign countries, and such country [participates] *participates or has participated* in any action pursuant to such arrangement the effect of which is to withhold supplies of vital commodity resources from international trade [or to raise the price of such commodities to an unreasonable level and to cause serious disruption of the world economy; withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level which causes serious disruption of the world economy;] ;

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